

*State of South Carolina*



*Office of the State Auditor*

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RICHARD H. GILBERT, JR., CPA  
DEPUTY STATE AUDITOR

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August 25, 2006

The Honorable Mark Sanford, Governor  
South Carolina Governor's Office  
State House  
Columbia, South Carolina

Dear Governor Sanford:

The Office of the State Auditor requests additional personal services and operating funds for FY 2007-08 in order to carry out our statutory and regulatory responsibilities. We are not requesting additional FTE or additional funds for capital purposes. We are not requesting any proviso changes. Enclosed please find our Budget Plan for FY 2007-08.

If clarification or additional information is needed, please do not hesitate to notify our office.

Sincerely,

Richard H. Gilbert, Jr., CPA  
Deputy State Auditor

## FISCAL YEAR 2006-07 BUDGET PLAN

### I. EXECUTIVE SUMMARY

- A. Agency Section/Code/Name: Part 1B Section 63A / F27 / BUDGET AND CONTROL BOARD, STATE AUDITOR'S OFFICE
- B. Statewide Mission: The mission of the Office of the State Auditor is to bolster public confidence in state government finance by serving as a deterrent to fiscal mismanagement, fraud, and misuse of assets by state agencies and providers of Medicaid services. The mission is accomplished by providing adequate audit coverage of state agencies and Medicaid providers in accordance with applicable standards of the American Institute of Certified Public Accountants.
- C. Summary Description of Strategic or Long-Term Goals:
- (1) The Office of the State Auditor and a private sector accounting firm jointly audit the State of South Carolina's Basic Financial Statements, which are prepared by the Comptroller General. The credibility of the State's Basic Financial Statements is very important in the financial community and can affect the State's bond rating. Timely completion of this audit in accordance with professional auditing standards is the highest priority for the Office of the State Auditor. This strategic goal is addressed in the Business Results section of the State Auditor's Accountability Report.
  - (2) The Single Audit Act Amendments of 1996 requires an audit of the State of South Carolina's Schedule of Expenditures of Federal Awards. Timely completion of this audit in accordance with professional auditing standards is the second priority for the Office of the State Auditor. This strategic goal is addressed in the Business Results section of the State Auditor's Accountability Report.
  - (3) The Office of the State Auditor is responsible for auditing all state agencies as required by statute and providing audit coverage of Medicaid Providers as required by contract with the Department of Health and Human Services. The strategic goal is to provide adequate audit coverage of state agencies and Medicaid providers. The measure of success for state agency audits is the completion of an audit of each state agency every year. The measure of success for audits of Medicaid Providers is to complete an audit of each provider no less than once every four years. These measures are addressed in the Business Results section of the State Auditor's Accountability Report.

D.

Summary of Operating Budget Priorities for FY 2005-06:		FUNDING					FTEs			
		State Non-Recurring	State Recurring	Federal	Other	Total	State	Fed.	Other	Total
Priority No.: 1	Title: Audits of State Agencies and Medicaid Providers.	0	496,979	0	0	496,979	0	0	0	0.00
Strategic Goal No. Referenced in Item C Above ( <i>if applicable</i> ): Goal # 3 above. Activities: “Medicaid Audits, #273” and “State Agency Audits, #274”										
Priority No.: 2	Title: Contracts with private CPA firms for audit services.	0	40,650	0	0	40,650	0	0	0	0.00
Strategic Goal No. Referenced in Item C Above ( <i>if applicable</i> ): Goal #3 above. Activity – “State Agency Audits, #274”.										
TOTAL OF ALL PRIORITIES		\$ 0	\$537,629	\$ 0	\$ 0	\$537,629	0.00	0.00	0.00	0.00

E. Agency Recurring Base Appropriation:  
       State \$3,240,454  
       Federal\$  
       Other \$3,784,454

F. Efficiency Measures:

The U. S. General Accountability Office requires 40 hrs of CPE each year for auditors. During the last year the State Auditor's Office took steps to improve the efficiency and effectiveness of its training program. Historically the Office has used internal resources to provide staff training. However, this approach is inefficient since it reduces audit effectiveness (i.e., our most experienced and senior staff are taken off of audit engagements to prepare the course materials). This year we took input from senior level staff members and hired professional trainers to present the courses.

G. NONE

Summary of Capital Budget Priorities:			Additional State Funds	Previously Authorized State Funds	Total Other Fund Sources	Project Total
Priority No.:	Project Name:	Project No*:	0	0	0	\$ 0
Priority No.:	Project Name:	Project No*:	0	0	0	\$ 0
Priority No.:	Project Name:	Project No*:	0	0	0	\$ 0
Total of All Capital Budget Priorities:			\$ 0	\$ 0	\$ 0	\$ 0

\* If applicable

H. Number of Proviso Changes: NONE.

I. Signature/Agency Contacts/Telephone Numbers:

Richard H. Gilbert, Jr., CPA  
Deputy State Auditor  
803 253-4160 ext. 203

R. Kenneth Harrill  
Director of Administration  
803 253-4160 ext. 211

## II. DETAILED JUSTIFICATION FOR FY 2005-06 OPERATING BUDGET PRIORITIES

- A. Agency Section/Code/Name: Part 1B Section 63A / F27 / BUDGET AND CONTROL BOARD, STATE AUDITOR'S OFFICE
- B. Priority No. 1 of 2
- C. (1) Title: Audits of State Agencies and Medicaid Providers.  
  
(2) Summary Description: The Office of the State Auditor audits all state agencies as required by statute and provides audit coverage of Medicaid Providers as required by Federal regulations and by contract with the Department of Health and Human Services.  
  
(3) Strategic Goal/Action Plan (*if applicable*): Fill the vacant auditor positions as necessary to conduct the audits required by the statutes and regulations.
- D. Budget Program Name and Number: II. AUDITS
- E. Agency Activity Inventory: “Medicaid Audits, #273” & “State Agency Audits, #274”
- F. Detailed Justification for Funding Increase:  
  
(1) Justification for Funding Increase: The mission of the Office of the State Auditor is to bolster public confidence in state government finance by serving as a deterrent to fiscal mismanagement, fraud, and misuse of assets by state agencies and providers of Medicaid services. The strategic goal that is crucial to accomplishing the mission is to provide adequate audit coverage of state agencies and Medicaid providers. The measure of success for state agency audits is the completion of an audit of each state agency every year as required by statute. The measure of success for audits of Medicaid Providers is to complete an audit of each provider no less than every four years. This request is for funding to fill vacant auditor positions. This item is assigned priority #1 because it has the most direct effect on the capacity of the Office to conduct and complete audits. These measures are addressed in the Business Results section of the State Auditor’s Accountability Report.

(2)

<b>FY 2004-05 Cost Estimates:</b>	<b>State Non-Recurring Funds</b>	<b>State Recurring Funds</b>	<b>Federal</b>	<b>Other</b>	<b>Total</b>
<b>Personnel:</b>					
(a) Number of FTEs*		0			0.00
(b) Salary		393,435			393,435
(c) Fringe Benefits		103,544			103,544
Program/Case Services					0
Pass-Through Funds					0
Other Operating Expenses					0
<b>Total</b>	0	496,979	0	0	496,979
<i>* If new FTEs are needed, please complete Section F (Detailed Justification for FTEs) below.</i>					

(3) Base Appropriation:

State	\$2,348,185
Federal	\$
Other	\$544,000

(4) Is this priority associated with a Capital Budget Priority? NO

G. Detailed Justification for FTEs NONE REQUESTED.

- H. Other Comments: This funding request would allow the Office of the State Auditor to fill the fifty-six FTE positions authorized by the Appropriations Act.

The Department of Health and Human Services is required to reimburse the General Fund one-half of the cost of performing audits of Medicaid providers. Approximately \$116,790 of this funding request would be reimbursed to the General Fund, resulting in a net cost of this request to the State of \$380,180.

As of the date of this request, audits of Medicaid providers have identified total receivables (net) due to the State and Federal government of \$2.58 million. This amount is expected to increase since it does not include several Medicaid providers who have not exhausted their appeals. Approximately one-half of this funding request is to fill vacant Medicaid auditor positions.

## II. DETAILED JUSTIFICATION FOR FY 2004-05 OPERATING BUDGET PRIORITIES

A. Agency Section/Code/Name: Part 1B section 63A / F27 / BUDGET AND CONTROL BOARD, STATE AUDITOR'S OFFICE

B. Priority No. 2 of 2

C. (1) Title: Contracts with private CPA firms for audit services.

(2) Summary Description: The Office of the State Auditor does not conduct audits of four state agencies because it would violate professional auditing standards regarding independence. This request is for funding to contract with private CPA firms to conduct audits of these state agencies: Budget & Control Board, Comptroller General, State Treasurer, and the Office of the State Auditor.

(3) Strategic Goal/Action Plan (if applicable): Contract with private CPA firms to conduct the audits as required by statute and in accordance with professional auditing standards.

D. Budget Program Name and Number: II. AUDITS

E. Agency Activity Inventory: "State Agency Audits, #274"

F. Detailed Justification for Funding

(1) Justification for Funding Increase: The mission of the Office of the State Auditor is to bolster public confidence in state government finance by serving as a deterrent to fiscal mismanagement, fraud, and misuse of assets by state agencies and providers of Medicaid services. The strategic goal that is crucial to accomplishing the mission is to provide adequate audit coverage of state agencies and Medicaid providers. The measure of success for state agency audits is the completion of an audit of each state agency every year as required by statute. This request is for funding to contract with private CPA firms to conduct audits of four state agencies: Budget & Control Board, Comptroller General, State Treasurer, and the Office of the State Auditor. Conducting these audits with agency auditors would violate professional auditing standards regarding independence. Since the audits are required annually, a recurring source of funding is needed. These measures are addressed in the Business Results section of the State Auditor's Accountability Report.



(2)

<b>FY 2004-05 Cost Estimates:</b>	<b>State Non-Recurring Funds</b>	<b>State Recurring Funds</b>	<b>Federal</b>	<b>Other</b>	<b>Total</b>
<b>Personnel:</b>					
(a) Number of FTEs*					
(b) Salary					
(c) Fringe Benefits					
Program/Case Services					
Pass-Through Funds					
Other Operating Expenses		40,650			40,650
<b>Total</b>	\$ 0	\$40,650	\$ 0	\$ 0	\$40,650
<i>* If new FTEs are needed, please complete Section F (Detailed Justification for FTEs) below.</i>					

(3) Base Appropriation:

State	\$2,348,185
Federal	\$
Other	\$544,000

(4) Is this priority associated with a Capital Budget Priority? NO

G. Detailed Justification for FTEs: NONE REQUESTED.

H. Other Comments:

## FY 2007-08 COST SAVINGS & ACTIVITY PRIORITY ADDENDUM

### I. 2% COST SAVINGS ASSESSMENT

- A. Agency Section/Code/Name: Section 63A / F27 / B & C - Auditor's Office
- B. Agency Activity Number and Name: 273 Medicaid Audits  
274 State Agency Audits
- C. Explanation of Cost Savings Initiative: Additional costs saving initiatives require the State Auditor's Office to curtail audit services to Medicaid providers and state agencies. Auditor positions will not be filled when vacant and contracts with private CPA firms for audit services will not be let or will be cancelled. (Note: By statute the State Auditor uses available personal services funds for contracts with CPA firms for audit services.)
- D. Estimate of Savings:

<b>FY 2007-08 Cost Savings Estimates:</b>	<b>General</b>	<b>Federal</b>	<b>Other</b>	<b>Total</b>
<b>Personnel:</b>				
(a) Number of FTEs				0.00
(b) Personal Service	64,809			64,809
(c) Employer Contributions				\$ 0
Program/Case Services				
Pass-Through Funds				\$ 0
Other Operating Expenses				\$ 0
<b>Total</b>	\$64,809	\$ 0	\$ 0	\$64,809

E. Activity Impact (*Describe the impact on the activity affected including the impact on customers and clients.*):

The Department of Health and Human Services is required by Federal regulation to provide adequate audit coverage of Medicaid providers. DHHS contracts with the State Auditor to provide this audit coverage. The ability of the State Auditor's Office to fulfill this contract is diminished by any reduction of resources. State agency audit coverage is equally affected by a reduction of resources. A 2% reduction in funds results in approximately 2200 fewer audit hours. That number of audit hours is required to audit two large state agencies, such as DSS, or four medium size agencies, such as the Commission on Higher Education.

F.

Summary of Cost Savings Initiatives for FY 2007-08:	FUNDING				FTEs			
	General	Federal	Other	Total	State	Fed.	Other	Total
Initiative Title: Medicaid Audit Services	\$32,405	0	0	\$32,405	0	0	0	0.00
Activity Number & Name: 273 Medicaid Audits								
Initiative Title: State Agency Audit Services	\$32,404	0	0	\$32,404	0	0	0	0.00
Activity Number & Name: 274 State Agency Audits								
Initiative Title:	0	0	0	\$ 0	0	0	0	0.00
Activity Number & Name:								
TOTAL OF ALL INITIATIVES	\$64,809	\$ 0	\$ 0	\$64,809	0.00	0.00	0.00	0.00

## FY 2007-08 COST SAVINGS & ACTIVITY PRIORITY ADDENDUM

### II. PRIORITY ASSESSMENT OF AGENCY ACTIVITIES

- A. Agency Section/Code/Name: Section 63A / F27 / B & C - Auditor's Office
- B. Agency Activity Number and Name: 273 Medicaid Audits  
274 State Agency Audits
- C. Explanation of Lowest Priority Status: These two activities have equal priority and account for 68% of the audit work performed by the agency. These activities are the "Lowest Priority" only because the Audit of the State's Basic Financial Statements and the Audit of the State of SC Schedule of Expenditures of Federal Awards are more important.
- D. Estimate of Savings:

Estimate of Savings:	General	Federal	Supplemental	Capital Reserve	Other	Total
<b>Personnel:</b>						
(a) Number of FTEs	34.9	0	0	0	0	34.9
(b) Personal Service	\$1,353,828		0	0	0	\$1,353,828
(c) Employer Contributions	\$370,677		0	0	0	\$370,677
Program/Case Services	0	0	0	0	0	\$ 0
Pass-Through Funds	0	0	0	0	0	\$ 0
Other Operating Expenses	\$253,761	0	0	0	0	\$253,761
<b>Total</b>	\$1,978,266	\$ 0	\$ 0	\$ 0	\$ 0	\$1,978,266

E. Activity Impact (*Describe the impact on the activity affected including the impact on customers and clients.*):

Even though these two activities are the lowest priorities, they comprise 68% of the audit work performed by the State Auditor's Office and are the core of the statutory and contractual responsibilities of the agency. Elimination of the Medicaid Audits would require the Department of Health and Human Services to contract with another provider of audit services in order to meet the Federal regulation requiring adequate audit coverage. Elimination of the State Agency Audits activity would effectively remove the primary deterrent to fiscal mismanagement, fraud, and misuse of assets by state agencies.

F.

<b>Summary of Priority Assessment of Activities</b>	<b>General</b>	<b>Federal</b>	<b>Supplemental</b>	<b>Capital Reserve</b>	<b>Other</b>	<b>Total</b>	<b>FTEs</b>
Activity Number & Name: 273 Medicaid Audits	867,055	0	0	0	0	867,055	15.3
Activity Number & Name: 274 State Agency Audits	1,111,211	0	0	0	0	1,111,211	19.6
Activity Number & Name:	0	0	0	0	0	\$ 0	0
Activity Number & Name:	0	0	0	0	0	\$ 0	0
Activity Number & Name:	0	0	0	0	0	\$ 0	0
<b>TOTAL OF LOWEST PRIORITIES</b>	<b>\$1,978,266</b>	<b>\$ 0</b>	<b>\$ 0</b>	<b>\$ 0</b>	<b>\$ 0</b>	<b>\$1,978,266</b>	<b>34.9</b>